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EPS of \$0.04 **beats by \$0.05** | Revenue of \$57.34M (12.96% Y/Y) **misses by \$84.67K**

GEN Restaurant Group, Inc. (NASDAQ:[GENK](#)) Q1 2025 Earnings Conference Call May 13, 2025 5:00 PM ET

Company Participants

Thomas V. Croal - Chief Financial Officer

David Kim - Chairman and Chief Executive Officer

Conference Call Participants

Todd Brooks - The Benchmark Company

George Kelly - Roth Capital Partners

Will Forsberg - Craig-Hallum

Operator

Good afternoon, everyone, and welcome to the GEN Restaurant Group, Incorporated First Quarter 2025 Earnings Call.

All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please also note today's event is being recorded.

At this time, I would like to turn the floor over to Tom Croal, the Company's Chief Financial Officer. Sir, you may begin.

Thomas V. Croal

Thank you, operator, and good afternoon.

By now, everyone should have access to our first quarter 2025 earnings release. If not, it can be found at www.genkoreanbbq.com in the Investor Relations section.

Before we begin our formal remarks, I need to remind everyone that our discussions today will include forward-looking statements within the meaning of federal securities laws, including, but not limited to, statements regarding growth plans and potential new store openings as well as those types of statements identified in our quarterly report on Form 10-Q for the period ended March 31, 2025, and our subsequent reports filed with the SEC.

These forward-looking statements are not guarantees of future performance, and therefore, you should not put undue reliance on them. These statements represent our views only as of the date of this call and are also subject to numerous risks and uncertainties that could cause actual results to differ materially from what we currently expect. We refer you to our recent SEC filings, including our annual report on Form 10-K for a more detailed discussion of the risks that could impact our future operating results and financial condition. Except as required by law, we undertake no obligation to update or revise these forward-looking statements in light of new information or future events.

During today's call, we will discuss some non-GAAP financial measures, which we believe can be useful in evaluating our performance. The presentation of this information should not be considered in isolation or as a substitute for results prepared in accordance with GAAP. Reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures are available in our earnings press release and our SEC filings, which are available in the Investor Relations section of our website.

Now, I'd like to turn it over to our Chairman and CEO, David Kim.

David Kim

Thank you, Tom, and good afternoon, everyone.

In the first quarter of 2025, despite economic pressures and slow consumer demand, we generated a 13% year-over-year increase in total revenues to \$57.3 million. This increase was driven by our growing footprint of restaurants and the continued success of our existing locations. We're pleased with our execution in the first quarter and the continued progress we're making across our strategic priorities. We believe our value price all inclusive dining model continues to resonate with guests and positions us for durable long-term growth.

We opened six restaurants in the first quarter, bringing GEN's footprint to 49 stores. These new openings represent a balanced geographic mix, including both new and existing markets. With this latest round of openings, we remain on pace to meet our target of 12 to 13 total new stores by the end of 2025. We have six restaurants under construction in addition to the six we opened in the first quarter.

We made significant improvements both year-over-year and sequentially in same-store sales growth. For the first quarter, same-store sales were down a very small modest 0.7% compared to being down 5.6% for all of 2024. This is a tremendous improvement. Restaurant level adjusted EBITDA margin for the quarter was slightly off our overall annual goal of 17% to 18% coming in at around 15.6% due to higher costs from new restaurant openings.

While our same-store sales have dramatically improved year-over-year and are presently better than many of our competitors in the industry, it's not the metrics that we believe captures our success. I can't stress enough. Our business model revolves around growing our footprint to capitalize on the strong EBITDA and resulting swift payback of our initial investment for new restaurants and the extraordinary ROI new stores generate.

We have an impressive 2.1 year payback per year run rate on our 2024 new stores, which equates to 40% plus ROI. Our shorter payback period than most competitors allows us to provide a more consistent and efficient return for our investors. Said another way, at the time we went public in June of 2023, we had 33 stores. We have added 16 new stores since then, roughly increasing our store count by 50%, but because of strong internal cash flow, we haven't needed to take any debt or equity to do this. This proves the value of our high free cash flow model.

Having said this, we still deeply focus on ways to drive growth at existing locations and have a number of initiatives to share. First, we only took a 2.8% price increase at the end of 2024 when most companies took 4% to 10% price increases. We're happy to report that our increase has not influenced customers at all. We remain a high-quality value dining experience for our customers.

Second, we've continued to enhance our training programs. We're spending more time and effort on training in order to build the bench strength necessary to expand new restaurant developments and openings around the country and into South Korea.

And third, our incubator projects. Last year, we announced the launch of GEN gift cards at 78 Costco locations, all within a five mile radius of most of our restaurants across the U.S. The gift card continuously sells exceptionally well. This quarter, we're testing e-gift cards, which will be sold through Costco's website.

We have also recently signed an agreement to sell gift cards at Sam's Clubs, which we expect to begin by the end of the second quarter or the beginning of third quarter. Our success in expanding this initiative is a testament to GEN's brand strength and position as a leader in Korean barbecue. We look forward to expanding this avenue with even more big box retail partners in the near future.

Also, I'm pleased to announce one of our incubator projects was the creation of our new dual-concept store in Texas. That includes a restaurant we're calling Kan Sushi. Kan is a contemporary medium to high-end sushi restaurant at an average price point of \$39 which compares to our GEN price point of \$30. Kan is an all-you-can-eat concept, which, like GEN, is a value-based restaurant concept. The two restaurants are attached, but have separate entrances and completely different interiors.

Most importantly, they've been engineered to create an extremely efficient back-of-the-house setup with one bar, one kitchen, one storage area and one area for bathrooms for both restaurants. This model uses one labor force to run two restaurants, which results in a significant improvement in operating margin.

Now instead of waiting in long lines, they can choose between two unique concepts that provide value-based dining. The two restaurants together, GEN and Kan, invite more crowds and create an epicenter for consumers. While still early days, we're evaluating a number of additional opportunities to roll out this dual-concept.

Finally, as a result of another incubator project, we have recently reached an agreement with Sysco for them to sell our proprietary GEN Korean barbecue meat products to third-parties such as grocery and big store retailers. This is in the early stages and will provide more information on future calls.

Turning back to new restaurant expansion, we're also making tangible progress on our international expansion into South Korea, where we plan to open three new restaurants in 2025. The first one is on-track to open at the end of second quarter, with the other two expected later in the year. These units will be built at approximately one-third the cost of our U.S. stores, offering even more compelling potential returns, which are not subject to the volatility of the current tariffs.

Additionally, by opening in Korea, we hope to see early culinary, cultural and experimental trends that might translate well for us in our U.S. locations. Given the strong momentum in our development pipeline, we remain on pace to open 12 to 13 new restaurants in 2025. We expect to achieve restaurant level adjusted EBITDA margin between 17% and 18% and revenue between \$245 million and \$250 million for full-year of 2025.

By the end of 2025, we anticipate being at an annual run rate approaching \$300 million of revenue when all new restaurants are opened. Another topic I want to address is the potential impact of recent announced tariffs. There could be a material impact on equipment costs and construction materials sourced from China, but still at very early-stage to quantify the extent. If tariffs begin to significantly affect our new restaurant development costs, which would reduce our ROI, we may decide to slow or pause the pace of new unit expansion until conditions improve or stabilize.

Overall, our first quarter marks a strong start to the year and reinforces the strategic foundation we have built to build and support the long-term growth. Backed by a healthy balance sheet, strong unit level returns a rising brand momentum. We believe GEN is well-positioned to deliver on our 2025 goals and continue expanding our presence across both domestic and international markets.

Thank you for your continued support. We remain excited about the opportunities ahead and confident in the road we're on. Tom, will now provide a detailed look at our first quarter financial performance.

Thomas V. Croal

Thank you, David.

David discussed revenue in his opening remarks, so I will start with expenses. Cost of goods sold as a percentage of Company restaurant sales increased by 20 basis points to 33.6% in the first quarter of 2025 compared to the first quarter last year. This minor increase is primarily attributable to inflationary pressure and a minor impact from our premium menu.

Cost of goods sold decreased by 50 basis points compared to the fourth quarter of 2024, primarily due to improved margin from our premium menu. Payroll and benefits as a percentage of Company restaurant sales decreased by 10 basis points in the first quarter of 2025 to 31.7% compared to the first quarter of last year.

Occupancy expenses as a percentage of Company restaurant sales increased by 40 basis points to 8.9% compared to the first quarter of last year due to new restaurant openings. Other operating expenses as a percentage of Company restaurant sales increased 30 basis points to 10.3% compared to the first quarter of last year.

G&A excluding stock-based compensation during the first quarter was \$5.6 million or 9.8% of revenue compared to \$3.9 million or 7.7% of revenue in the year ago period. During the first quarter of 2025, we opened six new restaurants compared to only two new restaurants in the first quarter last year. This tripling of new store openings is a main driver of higher G&A and includes hires across construction, regional operations and training. To a much lesser extent, the first quarter also reflected increased marketing expenses.

In the first quarter, we had a net loss before income taxes of \$2.1 million which equated to a loss per share of \$0.06 compared to net income before income taxes of \$3.8 million which equated to an EPS of \$0.11 per share in the first quarter of 2024. However, 2024 included a one-time gain related to the buyout of our partner in Hawaii of \$3.4 million.

In addition, the first quarter of 2025 reflects higher costs associated with new restaurant development, including \$2.6 million in pre-opening costs. If you look at adjusted net income, a non-GAAP measure, we generated net income of \$1.4 million or an EPS of \$0.04 per share in the first quarter of 2025 compared to net income of \$2.9 million or an EPS of \$0.09 per share in the first quarter last year.

Since going public in 2023, we have grown GEN from 33 restaurants to 49, a 50% increase without incurring any long-term debt. If we stopped all new restaurant development, we estimate we could have generated a \$2.5 million profit in the first quarter, along with an additional \$4 million of EBITDA or cash flow. This figure strips out all pre-opening costs and a reduction in G&A.

Total adjusted EBITDA for the first quarter of 2025 was \$1.2 million down from \$6.4 million in the first quarter of 2024. However, excluding the one-time gain of \$3.4 million I just discussed, adjusted EBITDA for the first quarter of 2024 was only \$3 million. Additionally, after removing pre-opening costs, adjusted EBITDA for the first quarter of 2025 decreased only slightly to \$3.3 million compared to \$3.6 million in the fourth quarter of 2024.

Turning to our liquidity position, as of March 31, 2025, we had \$15.4 million in cash and cash equivalents. And, only long-term debt we carry is \$5 million. We have fully available all of our \$20 million revolving line of credit.

During the first quarter, we repurchased 33,400 shares of our Class A common stock at an average cost of \$5.94 per share. As of March 31, 2025, we had \$4.8 million remaining under our repurchase authorization. Remember that we have 33 million shares outstanding, including our A and B shares. The founding group continues to own 85% of the Company. Because of the founders' strong ownership position, their interests are consistently aligned with those of the public shareholders and they are fully vested and successfully growing GEN.

Before concluding, I want to address investor questions we've received recently regarding long-term lease obligations. To reiterate what we said on our last call, GAAP accounting under ASC 842 requires us to record our restaurant lease obligations as a liability with an offsetting operating lease asset.

The \$147 million in lease liabilities are offset by \$130 million in operating lease assets on our balance sheet. This is a GAAP requirement. These lease liabilities are not bank or institutional long-term debt and should not be considered as such when evaluating our company.

We have only \$5 million of long-term debt. We also received questions about our return on tangible asset metrics. It's important to note that using total assets as a proxy for invested capital is inflated because it includes the operating lease asset of \$126 million. This incorrect assumption artificially lowers our tangible asset return metrics. All of these points highlight the fact that GEN has no material long-term debt and produces strong returns from restaurant development.

To reiterate what David said earlier, our financial outlook for the remainder of 2025 remains strong. We continue to anticipate opening between 12 and 13 new restaurants which includes our first three international units in South Korea. We are targeting full-year revenues of \$245 million to \$250 million and achieving restaurant level adjusted EBITDA margins in the 17% to 18% range. By the end of 2025, we anticipate being at an annual run rate approaching \$300 million in revenue when all the new restaurants are opened.

This concludes our prepared remarks. We'd like to thank you again for joining us on the call today. We are now happy to answer any questions that you may have. Operator, please open the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question today comes from Todd Brooks from The Benchmark Company. Please go ahead with your question.

Todd Brooks

Hey, thanks for taking my questions. Good to speak with you both. I want to lead off, Tom, if you could talk to maybe the same-store sales progression across the course of the first quarter. I know a lot of companies saw material dips in business in February, so I didn't know if you were willing to give us any color there. And then maybe quarter-to-date commentary on what you've seen so far in fiscal Q2.

Thomas V. Croal

Yes. Hi, Todd. January and February were pretty strong months. I think we talked about those on our last call. March, things dipped. I think through February, we were positive. And at the March, we ended up being slightly negative. And it has continued negative in April and the beginning of May.

Todd Brooks

Okay. And if you're looking at kind of causality, does it just feel macro to you or I guess speculation, but what are you guys attributing the recent weakness over the last couple of months or so?

Thomas V. Croal

Yes, it's macro. It definitely is macro based on what's going on in the economy and in the world, the impact of how our customers are feeling.

Todd Brooks

Okay. Fair enough. And then David, for you, I was wondering if you gave us a framework that a lot of exciting initiatives within the incubator. When you guys are talking to a \$300 million revenue run rate exiting 2025, how should we think about that as kind of new revenue opportunities driven by the incubator versus revenue that's generated by the core GEN franchise?

David Kim

So, the incubators are just new projects that we want to try and see if we can enhance our brand. But all of that growth of incremental sales reaching the \$300 million is purely all coming from new store restaurants and existing restaurants.

Todd Brooks

That's great to hear. Thanks. And then just quickly and I'll hop back in queue. If we think about Kan Sushi and the [dual branded] (ph) restaurant, I know it's early. I think you spoke, I'm just wondering operationally, I think you spoke about both menus being available, but does Kan Sushi actually have grills in the tables in them? Or how do you make the GEN menu and the GEN experience available to that customer? And then just how many of these Kan Sushi's do you foresee the market supporting? Thanks.

David Kim

In the past experience before GEN, there's a lot of national concepts and smaller concepts that I was involved with where dual concepts did not work. And there's a lot of studies done on why it doesn't work. So with that experience, knowing what I know of what didn't work for most concepts, it's a very different model where when a guest comes in, it's a very different restaurant. One cannot tell that one is a Kan, all you can eat, and one is a GEN, all you can use. It's very different.

There are no grills on the Kan side because you don't cook anything. So, there's a little bit of complexity in making sushi, but we've deployed a lot of technology to where we can cut down a lot of the labor side to execute our operations on the Kan side. But in terms of numbers coming in, they're coming in much better than we thought. It's a very short number, but we're extremely optimistic on it.

Why this was created is, I want to try to explain it in a simpler way. It's like the wing man for GEN. Many times we come across larger spaces that we have to let go and not do because the landlord wants us to take a bigger space. And to achieve this, if we were to have two concepts where one concept supports the lessening the long line of GEN Korean barbecue, instead of losing those customers to another competitor, we can capture those customers by coming into our concept that's right next door.

And this is not all theory. These were all thought through, planned through, looked at a sample of some of our restaurants, especially our headquartered restaurant where another all you can eat sushi is and our customers we were losing to them. So we said, let's try this and see if it will work. So operationally wise, construction wise, it's a little more expensive, not that expensive. And it's basically we're getting two for one in terms of labor cost. The food cost is almost the same in terms of percentage, it's little slightly higher on the sushi side.

So, are we going to test more of these? We are going to test more of these because in case there is, a GEN where it doesn't perform as much, we can always counter that with and hedge it with another concept right next to us.

Todd Brooks

Okay, perfect. Thanks guys.

Thomas V. Croal

Thank you, Todd.

Operator

Our next question comes from George Kelly from Roth Capital Partners. Please go ahead with your question.

George Kelly

Hey, everybody. Thanks for taking my questions. Maybe to start one for Tom. Just curious the four wall target that you gave 17% to 18% for fiscal year 2025. Just wondering what gives you confidence in that number. 1Q was below target and you just commented that it comes from negative in April and May. So, just curious what you're seeing or planning that gives you confidence that it will go through during the period?

Thomas V. Croal

Yes. There's a couple of things. One is, last year, our first quarter was our lowest quarter as well. And this year, our first quarter is lower. So we know that we'll make up for it as the year goes on. We are managing labor costs very tightly and we believe that there's room to improve in the margins there like we did last year and we'll do the same thing this year.

George Kelly

Okay, understood. And then second question on the potential Chinese tariff impact on newbuilds, David, that you were talking about. What is your expectation for per unit build costs in 2025? And what kind of risk do you see around your target? Just curious like if you're getting close to having a better sense of how it's going to shake out and what that means for unit growth, etcetera. So if you could just elaborate on that topic a bit, that would be helpful.

David Kim

The month of April when President Trump announced the tariffs, we have had vendors approach us in all directions with uncertainties of price increases from a lot in the equipment side because most of the kitchen equipment are coming from China. Construction materials are coming from China. So, we're not sure whether these were just increases because the industry is just taking advantage of the news or actually prices have actually going to be increasing.

This is such a fluid every week changes here and I wish I had a crystal ball myself into where things will settle. But we are prepared that if prices doesn't settle down to our projection of cost, meaning cost of materials, especially the kitchen and construction, we will pause some construction until there are settlements on pricing, because some pricings we are quoted 100%, some pricing we're quoted 15%, it's all over the map right now.

So, I think with the news that are coming starting last week and this week, I think the consensus is, it's going to settle down. Once it settles down, we can start evaluating what next steps we can take.

George Kelly

Okay. Understood. And then one last one is just on the openings that just happened in 1Q, the six openings. Can you just broadly talk about how they're performing?

David Kim

It's too early to tell it's a mixture. Some are average, some are above, some are below.

George Kelly

All right. I'll hop back to the queue. Thank you.

Operator

[Operator Instructions]. Our next question comes from Will Forsberg from Craig-Hallum. Please go ahead with your question.

Will Forsberg

Hey, guys. This is Will on for Jeremy. Thanks for taking my questions. Just like to jump back to the comp trends you guys have seen. Could you maybe break out what you saw in Q1 in terms of average check versus traffic? And then I guess how that's progressed into Q2 so far?

Thomas V. Croal

Yes. I think overall, we did see, as we talked about, 2.5% plus increase because of our price. We saw about a 10% to 11% reduction in our just overall customer base, but we saw 7% improvement from our premium menu. So all in all, we ended up less than 1% off.

Will Forsberg

Got it. That's a great color. And then going back to unit growth, so we'll ahead a schedule here to start the year. I guess, how can we think of the cadence the remainder of the year? And then I guess in the South Korea market, what are you seeing there that led you to add another unit to expectations? And I guess also would there be anything to note on expected AUVs there?

David Kim

The market that we found in South Korea, although it's a very competitive market, there is no sizable size 5,000 square feet or larger that is offering GEN's model of all you can eat beef. So, we'll be the first ones going in. We will open the first one in June 10th, and we'll see how those numbers move. But there's a good and a bad about markets like that. The good is, it's on the bottom of their cycle of economic pressure with all the election issues and all that. So, we're able to perhaps get better deals in Korea in terms of occupancy.

Although the sales might be lower than the U.S. depending on how our sales come in, the construction of opening a restaurant in South Korea for the same square footage is about 25% to 30%. So, for every dollar that we spend in the U.S, it only costs us \$0.25 to \$0.30. So, we are always looking at an internal rate of return. So for example, if the sales number comes in lower and our margins are lowered in the U.S, if we do the mathematics and we can pull our money out in the same projections we gave up the street of 2.5 years, we'll continue to look at that and see if that's a better model.

But again, it is a very big market. People are very ignorant about some of these markets thinking that they're small. They're not a small market. That market, the way our data has come in, it's about 100 to 200 store market. So, it's just way too early to tell. Even if we misjudged the South Korean market, the labor cost is substantially lower, everything cost is lower. So, if we took a very bad approach and everything just failed and didn't go our way, the losses that GEN will be taking will be very small, so that it is worth taking the risk.

Will Forsberg

Got it. And then just one last one for me on the gift cards. I know redemption had been around 50%, I believe. Have you gotten to a point now where you've kind of seen a more normalized redemption rate that you could share? And then also at this time, are you able to quantify the lift, in average check from gift users versus the baseline customer base?

David Kim

Okay. The answer to first question, it stabilized. We think it's going to stabilize around 60%, 65%. The industry is about 70%, 75%. So, we're ahead of the industry. It has stabilized a lot. In terms of whether we got incremental sales from that, we don't have that data. But some of the discussions we have with the managers is that consumers that are using the gift card are actually spending more money when they are dining at our place.

How do we know that is we see more sales in premium menus and we see more sales in drinks for the ones who are using those cards. We don't have raw data on that. We don't track that, but that is what we're hearing from the managers.

Will Forsberg

Got it. Appreciate the color. Best of luck.

Thomas V. Croal

Thanks, Will.

Operator

And ladies and gentlemen, with that, we'll be concluding our question-and-answer session. At this time, this concludes this portion of the conference call, and I'd like to turn the floor back over to Mr. Kim for closing remarks.

David Kim

Thank you very much for continuously believing in our company. We will continue to grow this brand and despite some macroeconomics of issues with the tariffs, we think that will all get behind us and we are not shifting our focus. We're focused on what we're doing every day. Thank you very much.

Thomas V. Croal

Thank you.

Operator

And ladies and gentlemen, the conference has now concluded. We do thank you for attending today's presentation. You may now disconnect your lines.

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